1964 AGRICULTURAL FINANCE OUTLOOK

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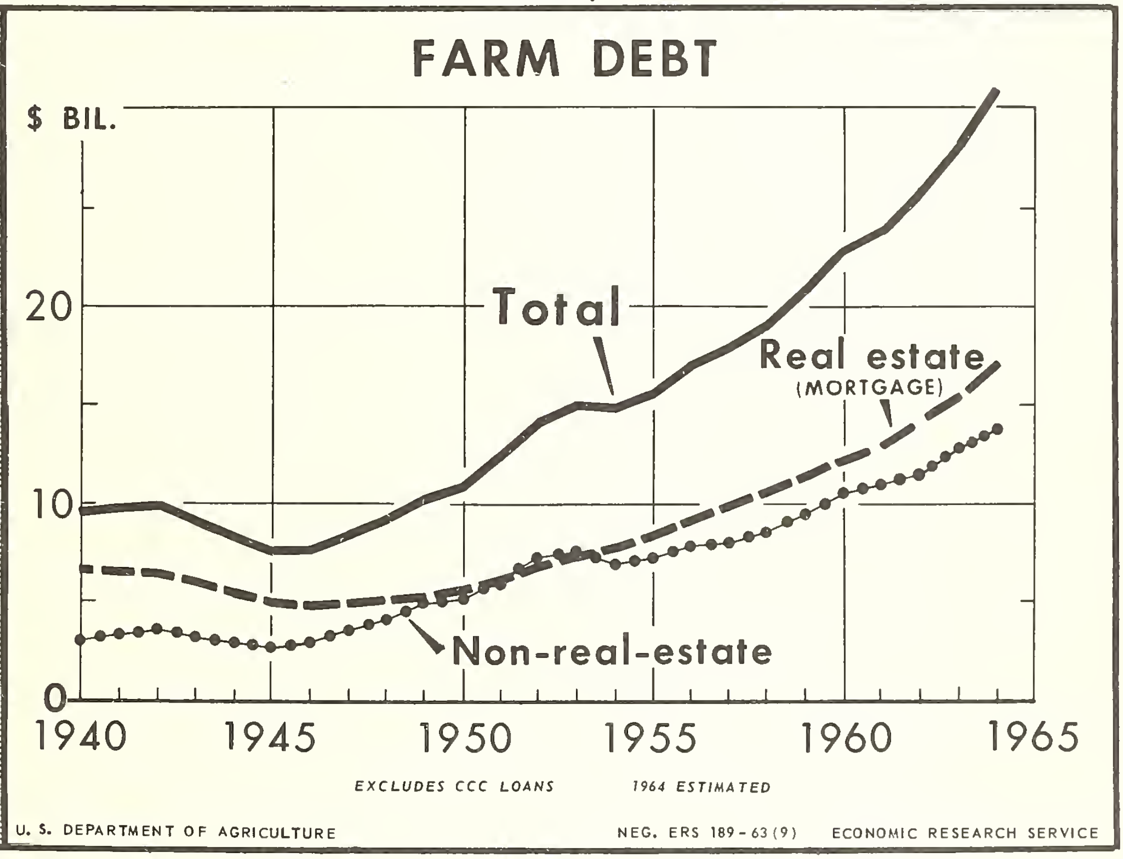

Total farm debt rose sharply in 1963. Underlying this continued increase was the growth in physical size and capital requirements of farms. Since 1955 the average value of productive assets per farm has approximately doubled, from $25,800 to about $51,000.

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In preparing this report, the Farm Production Economics Division, Economic Research Service, had the benefit of information received during late September from the district Farm Credit banks, the State offices of the Farmers Home Administration, the agricultural economists of the Federal Reserve banks, the farm-mortgage departments of several life insurance companies in various parts of the United States, several firms specializing in financing farm machinery, and major farm supply cooperatives.

1964 AGRICULTURAL FINANCE OUTLOOK

Approved by Outlook and Situation Board, October 31, 1963

THE OUTLOOK FOR 1964

The 1964 farm financial outlook is for continued increases in assets and equities but for some decline in net income.

The value of farm assets is expected to reach $226 billion by the end of 1963--up nearly $10 billion from January 1, 1963. Although farm debts will have risen by nearly $3 billion, farm equities will be up about $7 billion by the end of the year. These increases in asset and equity values chiefly result from rising land values. If land values continue to rise, farm assets and equities will increase further in 1964.

Realized net farm income is down about 3 percent this year from last year because of higher costs throughout the farm economy and reduced returns from livestock. With costs continuing upward, a further decline of perhaps 5 percent or more in realized net farm income is anticipated for 1964 if receipts from wheat (sales and Government payments) are reduced as much as expected. The unfavorable prospect for wheat may be mitigated by potentially large import requirements of Western Europe and the Soviet Union and its satellites.

Farm credit needs have been exceptionally large in 1963 and will continue large in 1964. Consolidations and new technologies are increasing capital requirements of farmers. Moreover, farmers are using credit to meet an increasing proportion of their capital needs.

Competition among lenders--especially mortgage lenders--for farm loans also has been exceptionally strong in 1963. The growth of liquid savings increased the loanable funds of financial institutions, and lenders were attracted by favorable interest returns on farm mortgage loans.

The combination of strong demand for farm credit and increased competition among lenders for farm loans has caused farm debts to rise sharply in 1963. Both loans per borrower and loans per acre have risen.

Farm debts will rise again in 1964 but several factors raise doubt whether they will increase as much as in 1963. The decline since last spring in free reserves of the banking system suggests that loanable funds of financial institutions may not increase as much in 1964 as in 1963. Moreover, mortgage lenders expressed more concern this fall than in any other recent year about the increasing amounts loaned per acre. These factors may bring some tightening of lenders' requirements for loans.

Also many farmers may become more cautious about requesting credit, particularly long-term credit, if wheat prices decline as anticipated and if recent increases in interest rates on short-term securities spread to long-term securities and farm mortgage loans. Some increases in rates on short-term farm loans have already been reported and more are likely to follow. They may be forerunners of somewhat higher rates on farm mortgage loans.

Despite increases in farm debt and in loans per acre made by mortgage lenders, loan collections have been good and delinquencies are few. Apparently most farmers who have increased their use of borrowed capital have been able to carry the larger debts involved.

But a factor that may account in part for the good loan payment record is farm capital appreciation, particularly in rising land values. As one lender put it, "We have not acquired any farms during the year and do not expect to before year-end. The farmers in serious trouble have been able to sell off, or sell out completely, at a good price."

This factor will continue to ease difficult situations as long as the farm land market remains strong. However, activity in the market for land and the increasingly liberal lending policies probably have been related. Should mortgage loans become less readily available, land sales may tighten causing loan collections to fall off.

FINANCIAL DEVELOPMENTS IN 1963

The preliminary Balance Sheet of Agriculture for January 1, 1964, reflects further strengthening of the asset and equity positions of farmers during 1963 (table 1). The estimates indicate an increase of nearly $10 billion in farm asset values and of about $7 billion in farm equities.

As in other recent years, these gains result mainly from higher valuations placed on farm real estate. Although large amounts are invested each year in farm structures and other land improvements, the rising price level for farmland is chiefly responsible for these higher valuations.

Other physical farm assets are expected to increase only $0.9 billion during 1963. The gains anticipated in these assets are expected to come chiefly from farm investments in machinery and motor vehicles and from larger, higher-priced crop inventories. Despite increased numbers, the livestock inventory is expected to decline in value, because of lower prices per animal.

Financial assets owned by farmers probably will be up slightly. A further increase has occurred in time deposits, and equities in farm cooperative associations have continued to rise.

Farm debts, including Commodity Credit Corporation loans, are expected to be about $2.8 billion higher by year-end than on January 1, 1963. Farm mortgage loans are expected to increase $1.5 billion. Other expected increases include $1.1 billion for production loans; and $0.2 billion for CCC price support loans.

Several mortgage lenders who operate nationally called attention this fall to the increasing amounts loaned per acre on farm real estate. One of these lenders, commenting on this trend, stated: "The traditional conservatism . . . of mortgage lenders . . . has deteriorated more in the past year than at any time in past history." However, loan collections during the last year have been excellent and foreclosures continue at record low levels.

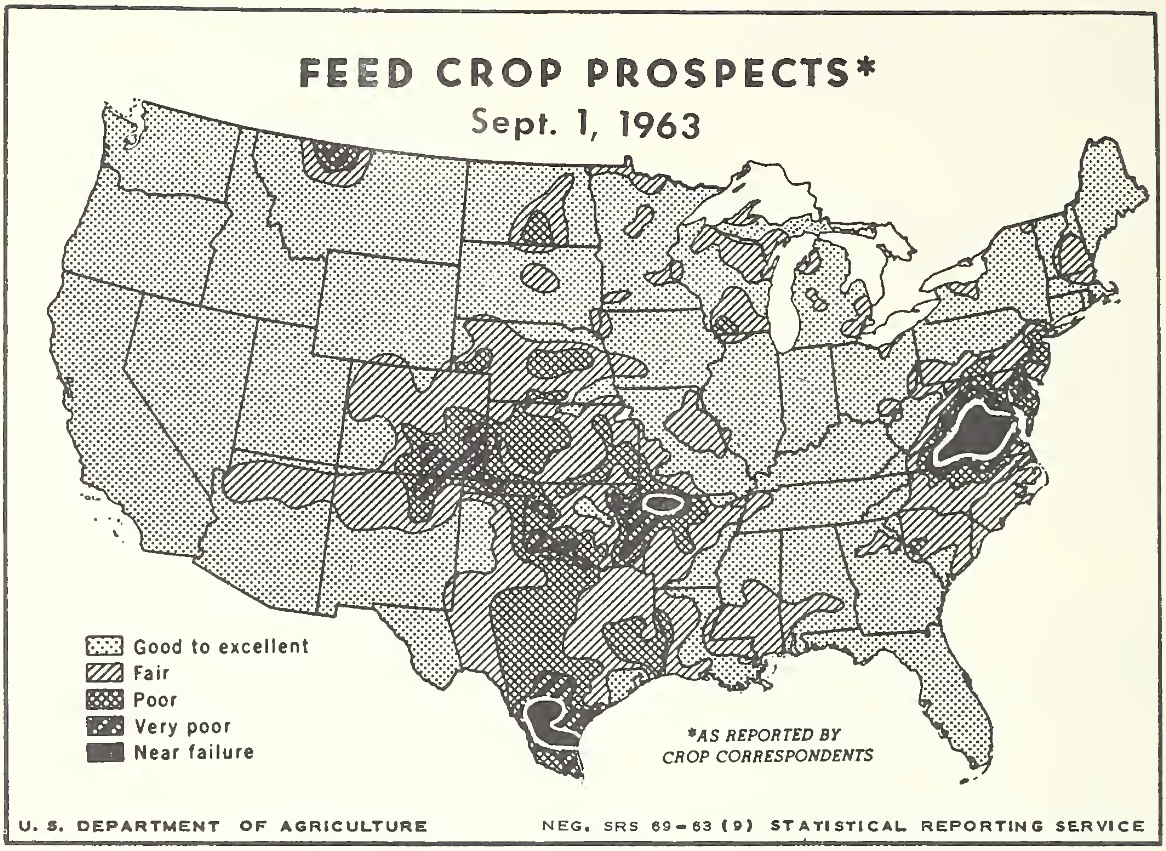
Table 1.--Balance Sheet of Agriculture, Jan. 1, 1963, and estimate for Jan. 1, 1964

Item	Jan. 1, 1963 1/	Estimates for Jan. 1, 1964	Percentage change
ASSETS	Billion dollars	Billion dollars	Percent
Physical assets:			
Real estate	143.6	152.0	5.8
Non-real-estate	54.5	55.4	1.7
Financial assets	18.4	18.8	2.2
Total	216.5	226.2	4.5
CLAIMS			
Liabilities:			
Real estate debt	15.2	16.7	9.9
Non-real-estate debt to--			
Commodity Credit Corporation	2.1	2.3	9.5
Other reporting and non-reporting creditors	12.7	13.8	8.7
Total	30.0	32.8	9.3
Equities	186.5	193.4	3.7

1/ Revised.

The preliminary estimate for aggregate net farm income realized in 1963 is not as favorable as that for farm assets and equities. Although realized gross farm income for the year is expected to be slightly larger than in 1962, higher costs are reducing net farm income to a level slightly below that in 1962. On a per farm basis, however, net income in 1963 is expected to about equal the record high of 1962. Per capita income of the farm population from nonfarm sources will be even higher in 1963 than in 1962.

Reports indicate that the financial situation of farmers this fall is about the same to moderately stronger than a year ago in most parts of the country. Principal exceptions from the standpoint of income are cattle feeders and hog producers, and farmers in areas where weather has adversely affected production (fig. 1). Notable among these areas are southern Pennsylvania, Maryland, and Virginia where drought reduced crop production and increased costs of feed; the citrus area in Florida which last December suffered severe freeze damage to both crops and trees; the lower Rio Grande Valley of Texas which continued to be handicapped from late freeze damage in early 1962; and a large area in Southeastern Colorado, Northeastern New Mexico, the Oklahoma Panhandle, and


FEED CROP PROSPECTS*
Sept. 1, 1963
Good to excellent
Fair
Poor
Very poor
Near failure
*AS REPORTED BY
CROP CORRESPONDENTS
U. S. DEPARTMENT OF AGRICULTURE
NEG. SRS 69-63 (9) STATISTICAL REPORTING SERVICE

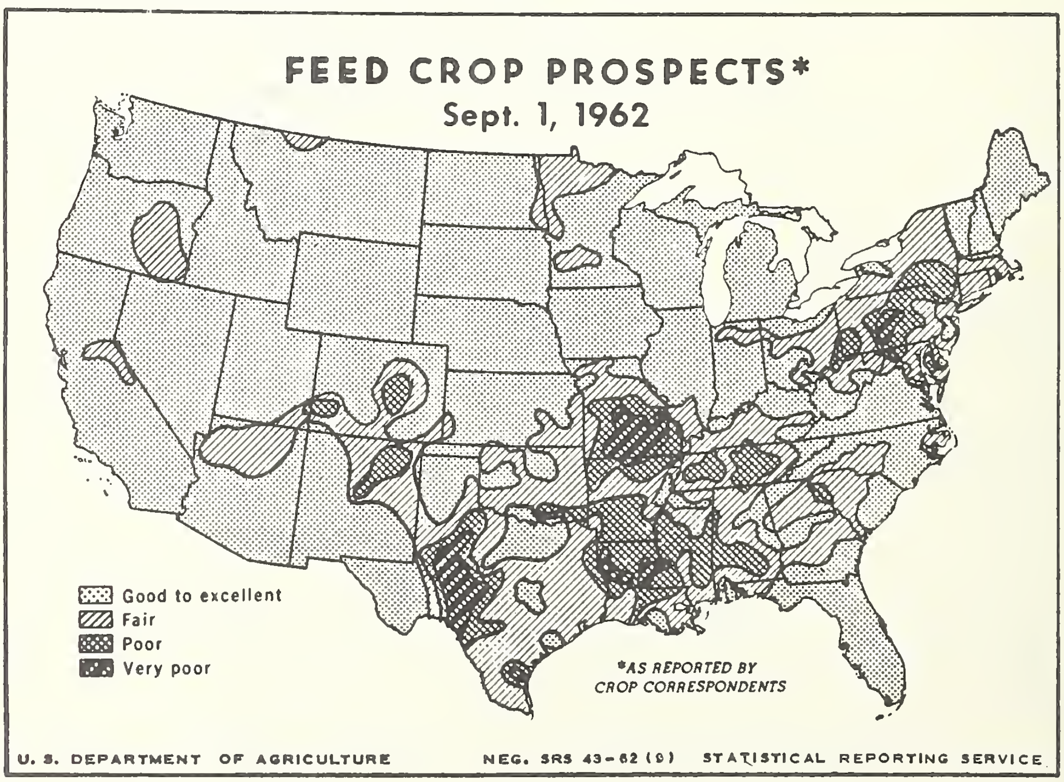

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Figure 1

Southwestern Kansas. Winter-kill and drought severely affected the crops. However, rising land values, purchases of additional assets, and payments on debts continued to improve the asset and equity positions of most farmers--including many whose incomes were reduced and many whose debts increased in 1963.

Farm lenders generally report that family living levels have been well maintained or improved in most instances. Even where farm income has declined there are strong pressures to retain living standards. Sometimes living levels are maintained by drawing upon savings, or spending less on maintenance of machinery and buildings. Frequently supplemental off-farm work is obtained to meet desired family expenditures.

Farm Real Estate

Market values of farm real estate have advanced about 5 to 6 percent annually since mid-1961. These were about double the annual increases of the previous 2 years. As of mid-1963, the national index was about double the 1947-49 average and 27 percent above 1957-59. Average values per acre were at record highs in nearly all States on July 1, 1963. The total market value of farmland and buildings was estimated at $148 billion--a national average of $134 per acre.

Regional differences in the annual rates of increase have not changed much in the last 2 years. They have ranged from 4 percent in the Northeast, Lake, and Corn Belt States to 8 or 9 percent in the Delta and Southern Plains States (fig. 2).

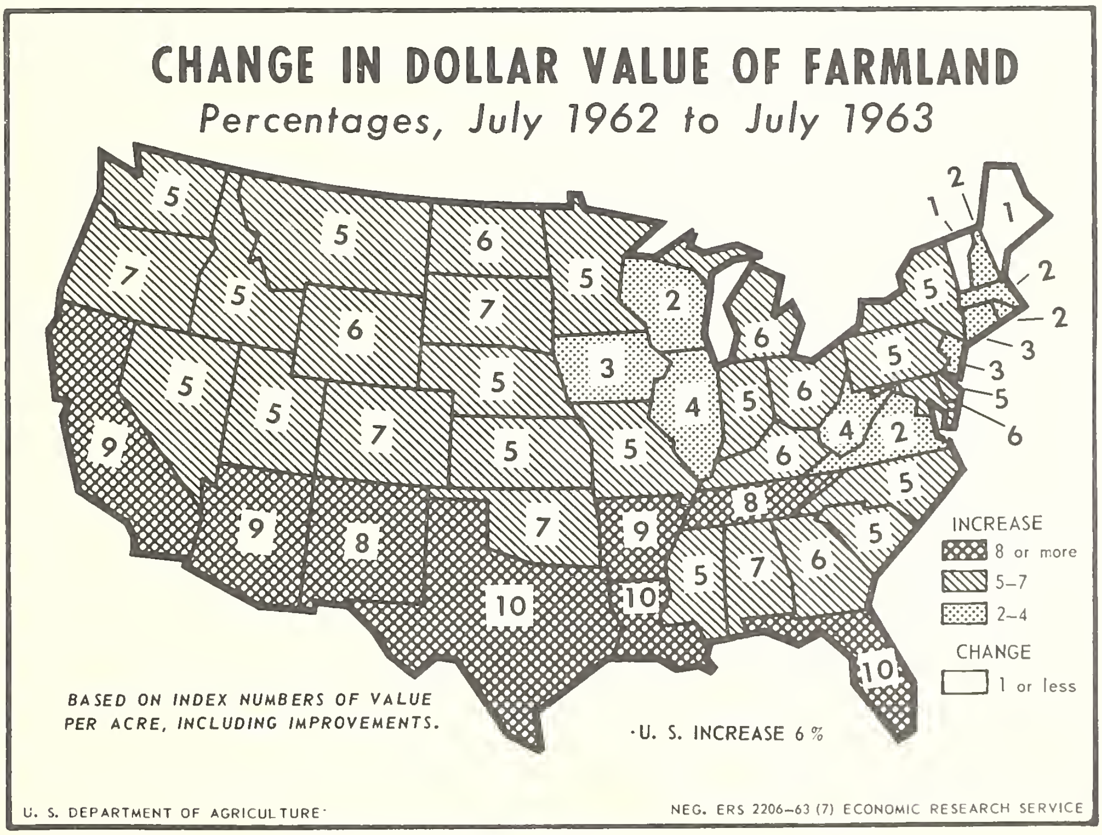

Figure 2

Uncertainties about new farm legislation for wheat, cotton, dairy, and land retirement programs cloud the trend in land prices in 1964. Results of last May's wheat referendum apparently had not affected land prices in the wheat States as of mid-1963, but some downward pressure is expected because of lower prices anticipated for the 1964 wheat crop. Recent developments that suggest stronger export demand and somewhat higher 1964 prices than were expected earlier are likely to moderate any effects of the wheat referendum on land prices. However, lower total net farm income in 1964 because of higher production expenses and lower cash receipts from wheat may dampen the currently strong demand for land. Continuing pressures to increase farm size to better utilize new technology, and upward price pressures in the nonfarm economy will continue to provide strong underlying support for land prices. Price-depressing and price-supporting forces could be largely offsetting.

The advance in farm real estate market values continues to outpace net capital returns after allowances for operator and family labor and non-real-estate capital. 1/ Preliminary estimates indicate a 5.3 percent return on the March 1963 market value of land and service buildings. This compares with 5.4 percent in 1962 and 5.6 percent in 1961. The imputed rate of return is likely to drop below 5 percent in 1964 in view of the further increase in market values that has already occurred in 1963, and the anticipated lower net farm income.

Continued strong demand for land for farm enlargement and limited offerings of land for sale have been the chief contributors to higher land prices in recent years. The generally ample supply of credit to finance land purchases, particularly that provided by sellers under installment land contracts, has undoubtedly contributed to the effective demand for farmlands. Established farmers who have acquired substantial equities in their present farms because of rising land prices and savings from past farming operations can usually show ample security and debt repayment capacity to support additional borrowings for land purchases. Beginning farmers seeking land purchase loans to enter farming are in a less favorable position and must rely more often on seller-financing than on mortgage credit from commercial lenders.

The established farm owner can gain from increased market values of farm real estate only by sale, or by borrowing against this increased value. Since a sale would require repurchase at equally high prices, or a change in occupation, the credit market provides the only means of converting a part of the increase in land values into working capital. A substantial proportion of mortgage lending operations of commercial lenders reflect refinancing and increases in existing mortgages. Such borrowings are an important source of additional capital needed for additional land, livestock, machinery, and other farm

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1/ The allowance for labor was obtained by multiplying the average cash wage rate per hour (excluding perquisites) by the total number of man-hours used in farm work. This rate was $1.01 per hour for 1962 and $1.03 for 1963. Equity capital invested in machinery, livestock, feed crops stored on farms, and working capital was allowed a return of 4.1 percent in 1962 and 4.2 percent in 1963.

improvements a farmer needs to keep pace with advancing farm technology.

Farm Income and Expenditures

Realized gross farm income in 1963 will be a record high, a little higher than in 1962. Both cash receipts from farm marketings and Government payments likely will be larger.

The preliminary estimate of cash receipts from farm marketings for the first 9 months of 1963 is $24.2 billion, compared with $24.0 for the same period in 1962. Receipts from crops increased more than 3 percent. Cotton, wheat, and soybeans accounted for the bulk of this increase due to a larger volume of marketings. Soybean prices were up about 4 percent while wheat and cotton prices through September averaged close to a year earlier. Receipts for corn and truck crops were lower than during the first 9 months of 1962.

Cash receipts from livestock and products, January-September 1963, were fractionally below the same period a year earlier. Volume of marketings were higher than last year but prices were down about 3 percent. Receipts from cattle and calves showed a fractional decrease and receipts from hog marketings were down substantially. Cash receipts from poultry and eggs were up from the 1962 levels while dairy receipts were close to a year earlier.

Government payments to farmers this year may be just above the $1,736 million paid out in 1962. Payments under the Feed Grain and Wheat Programs in 1963 will likely account for $1.1 billion, much the same as last year.

Farm expenditures continued to rise during 1963. Feed and fertilizer expenditures are noticeably higher than in 1962. The value of livestock purchased is likely to be up slightly. Wage rates increased during the year but total expenditures for hired labor remained about the same because of fewer hired workers. The repair and operation of capital items was more costly as both goods and services rose in price. Expenditures for tractors and other farm machinery may be from 5 to 10 percent more than in 1962. Tax payments are expected to be about 5 percent higher in 1963 than in 1962.

Net income realized from farming for 1963 is expected to be about 3 percent less than in 1962. The increase in farm production expenses probably will more than offset the increase in realized gross income. On a per farm basis, net realized income of farm operators in 1963 is expected to be about equal to the record high of $3,414 reached in 1962.

About a third of the total personal income of farm people in recent years has been from nonfarm sources. This level is expected to be maintained in 1963. On a per capita basis, income from nonfarm sources will be even higher in 1963 than in 1962, reflecting in part a further drop in the farm population.

Both cash receipts from farm marketings and Government payments are expected to show some decrease in 1964. Farm production expenses will probably increase at least as much as in 1963, when they rose about $600 million. With realized gross income down slightly and with expenses rising, realized net farm income in 1964 probably will be below 1963, perhaps by 5 percent or more.

Taxes

Preliminary reports indicate that State and local taxes levied on farm real estate in 1963 are up about 5 percent from 1962. This is about the same increase as last year. Taxes levied in 1962 averaged $1.36 per acre, and $1.03 per $100 of full value. Farm real estate taxes per acre have been rising without interruption for 20 years. There is no reason to expect a reversal of this uptrend in the near future.

The long-term uptrend in farm property taxes reflects steadily rising costs of State and local government. Rising salary levels for public employees, higher costs of materials, expanded requirements and rising standards for schools, roads, welfare, and other governmental services all tend to raise State and local expenditures and taxes. Nationally, the property tax contributes about 45 percent of all State and local tax revenue.

Other taxes are rising also. By mid-September, according to the Federation of Tax Administrators, more than half of the 47 States that held regular legislative sessions in 1963 increased rates of existing taxes or adopted new tax measures. Most significant in terms of additional revenue were increases in sales taxes, enacted in 12 States. Taxes on income, motor fuel, tobacco, and alcoholic beverages were also increased in various States.

Proposed reductions in Federal income taxes, however, would probably fully offset the increased State and local tax "bite" in prospect for farmers in 1964. The pending bill to cut tax rates and make other changes, as approved by the House of Representatives, would probably cut about $200 million annually from the approximately $1.3 billion that farmers are currently paying in Federal income taxes.

FARM DEBT

Farmers' use of credit continued to climb sharply in 1963. As shown in the cover chart, outstanding farm debt (excluding Commodity Credit Corporation price support loans) is expected to exceed $30 billion by the end of this year. The increase of $2.6 billion, or 9 percent, expected for 1963 exceeds slightly the rise in 1962 and is about one-half higher than that in 1961.

Despite the rise in borrowings, delinquencies remain low and collections good. An increase in renewals of short-term loans was reported in some areas but for the most part these appear to be related to delayed livestock marketings and adverse weather conditions. Large amounts of loanable funds have been available, and farm demand for credit has been strong during 1963.

The dollar amount of farm mortgages recorded in the first half of 1963 was 18 percent greater than in the first half a year earlier. This was a sizable further rise, considering that farm mortgages recorded in calendar year 1962 had been 16 percent larger than during 1961. The number of loans made and the average size of the loans have both increased this year.

The increase in farm mortgage lending was widespread (fig. 3). Six of the 10 farm production regions showed increases of from 12 to 23 percent. The

largest rises--39 percent and 34 percent, respectively--were in the Delta and the Southern Plains. Below average increases occurred in the Mountain States and the Northeast.

Interest rates charged by life insurance companies, on their new farm mortgage loan commitments have remained stable over the last year, averaging 5.75 percent. Three of the Federal land banks have temporarily reduced their rates since a year ago. On October 1, 1963, nine of the banks were charging 5.5 percent, one was charging 5.75, one 5.2 percent, and one 5.0 percent. However, the rise in short-term interest rates in the central money markets since midyear may create some upward pressures on long term rates generally, including rates on farm mortgages.

Mortgage loan repayments during 1963 were good, and few extensions or delinquencies were reported. Under these conditions, and with interest rates maintained, most lenders were actively seeking farm mortgage loans. The dollar amount of insurance company mortgage loans recorded in the first half of 1963 was 32 percent higher than in the first half of 1962, commercial banks increased 24 percent, and the Federal land banks increased 11 percent.

Reports indicated that some of the major farm mortgage lenders had raised the amount they would lend on farm real estate in 1963 to a higher percent of the appraised price of the property.

The dollar volume of non-real-estate loans of the reporting lenders at mid-1963 was 14 percent higher than a year earlier. In the preceding 12 months such outstanding debt increased 10 percent, and in the year before that the increase was only 6 percent. As with mortgage loans, the rise in non-real-estate debt was rather uniform throughout the Nation (fig. 4). However, increases in the Northeast and in the Pacific States were below the national average, while the rise in the Northern Plains was greater than average.

Outstanding non-real-estate loans of the major lenders increased by roughly similar percentages in the year ending June 30, 1963--15 percent for production credit associations, 14 percent for banks, and 12 percent for the Farmers Home Administration. Interest rates remained stable during the year but a recent rise in short-term interest rates in central money markets was reflected in scattered reports of rate increases on short-term farm loans.

The further rise in the use of credit appears to reflect mainly the generally higher costs of farming, and borrowing by operators to enlarge and improve their farming operations. That most loans have been made on a sound basis is evidenced by the generally-excellent repayment record. This record, along with the rapid growth of liquid savings available for investment, has encouraged lenders such as insurance companies and banks to allocate additional funds to agricultural lending and to ease somewhat their lending standards.

Continually-rising land values with a ready market for almost any farmland offered for sale is an influence that needs to be considered in appraising the statistics of loan repayments, delinquencies, and foreclosures. Some heavily encumbered farm owners have avoided delinquencies or foreclosures simply by selling their properties, usually at favorable prices. Some other farm owners have been able to refinance and extend their loans over a greater

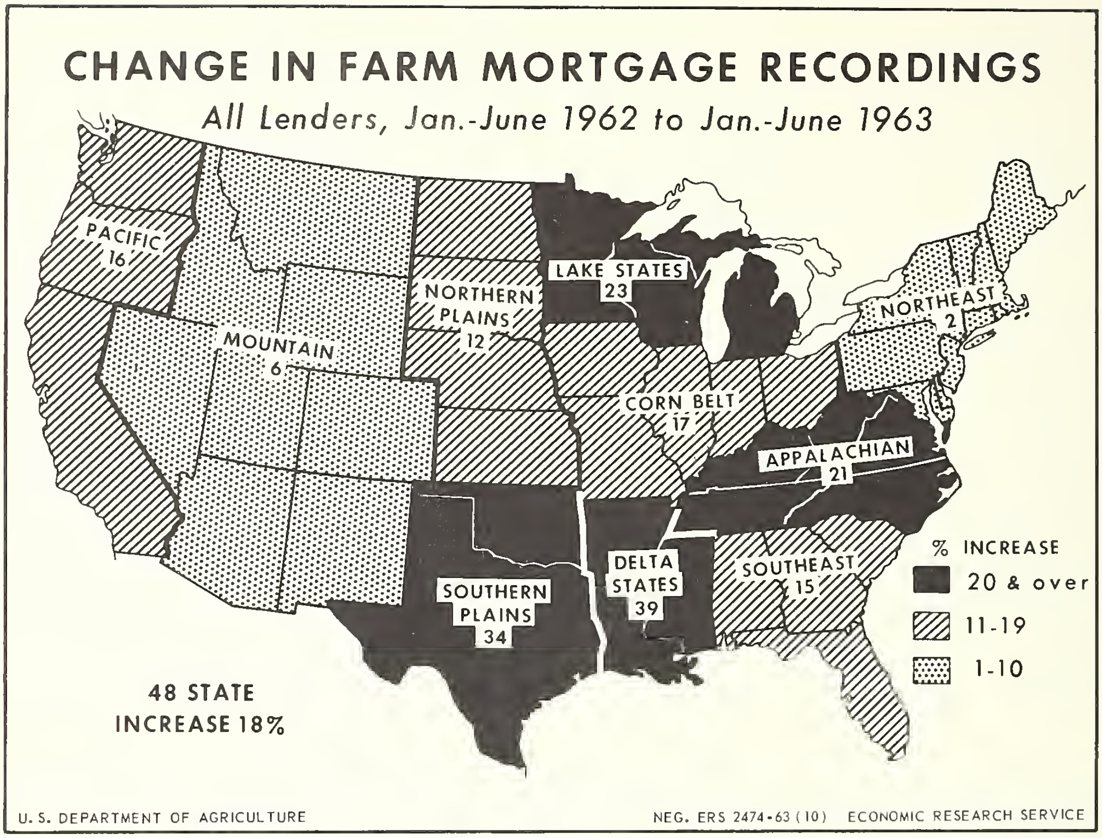


Figure 3

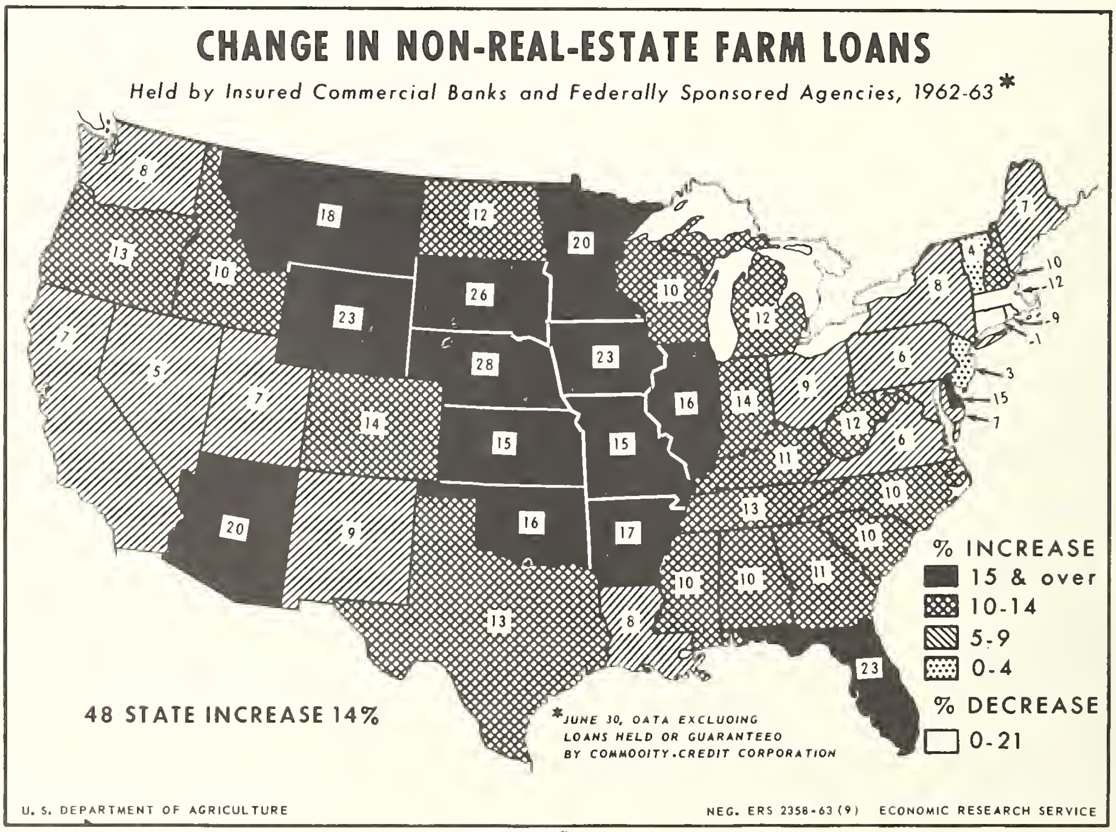


Figure 4

number of repayment periods because equities in the land they own have risen with the rise in farmland prices.

In 1964, loanable funds of financial institutions may not increase as much as in 1963 and, with the anticipated decline in prices for the 1964 wheat crop and rising costs generally, some farmers may become more cautious about borrowing for longer term purposes.

Emergency Loans of Farmers Home Administration

In early October 1963, about 570 counties in 30 States were eligible for emergency loans from the Farmers Home Administration (fig. 5). These designated areas are where natural disasters, such as drought, floods, or windstorms, have brought about a need for credit which cannot be met by private lenders. In some areas, such as in Washington, Oregon, Nevada, Utah, and West Virginia, the map may not accurately reflect current conditions because the situation underlying the designation occurred during the 1962-63 winter. In the year ended June 30, 1963, FHA made about 19,000 emergency loans totaling $63 million. This is about the same volume of loans as made in the preceding year.

Finance Company Machinery Credit

Farmer expenditures for tractors and farm machinery and equipment in 1963 may be 5 to 10 percent above the estimated $2.0 billion spent for such equipment in 1962. A substantial proportion of this amount is credit financed by commercial finance companies and by the farm machinery manufacturers themselves through subsidiary organizations. These firms ordinarily buy, at a discount, notes covering the purchases of agricultural machinery. The credit and collection experiences of these firms provide a measure of the debt-paying ability of a large segment of the agricultural sector of the economy. This, in turn, offers a major clue to the current financial condition of farmers.

Included here are data supplied by 6 major firms that specialize in financing relatively large farm machinery purchases. All these organizations are active nationwide. In total, they expect to buy nearly a quarter billion dollars of farm machinery paper in 1963.

Although wide variations exist among firms, in the aggregate they anticipate ending 1963 with a 9-percent increase in the amount of such paper held. By way of contrast, the total number of new accounts increased only 2 percent during the year. The average size of indebtedness per transaction rose 7 percent--from $2,425 to nearly $2,600.

These data reflect the cross-currents of relatively good present demand for farm machinery from a decreasing number of farmers. In addition, the larger average size of transaction stems partly from the use of larger, more complex machinery on the remaining larger farms.

Delinquent accounts receivable of these firms, identified as 31 days or more past due, were quite low. One firm reported, "1963 indicated the lowest percent of delinquency since 1958." Another reported that only about 1 percent

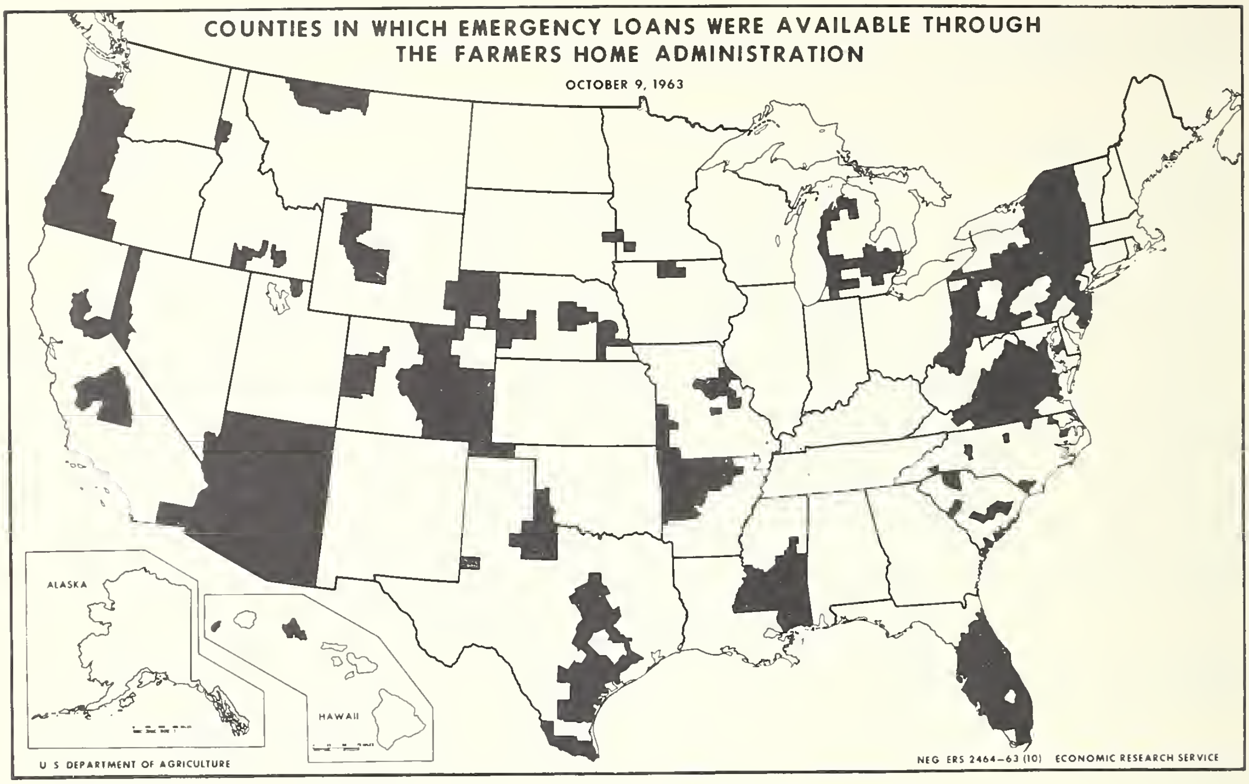


Figure 5

of its total number of accounts was 31 days or more past due. In general, if there was a change in 1963 from 1962 the rate of delinquency was slightly lower. Generally good farm income in the 1961-63 period has enabled farmers to maintain a good record of debt repayment and, perhaps, to reduce some old, past-due accounts.

"Bad" loans--those requiring repossession or foreclosure or which were otherwise defaulted--were insignificant. Most common reasons given for repayment difficulties were: (1) farmers overextending their operations, and (2) machinery purchasers leaving the farm.

Looking ahead, most commercial farmers in 1964 should experience no difficulty in securing adequate financing for their machinery purchases. Without exception, these reporting firms anticipate no major change in their credit policies. Farmer use of installment credit to maintain or enlarge machinery inventories is likely to expand next year for at least 2 reasons. Because of good collection experience these firms plan a modest increase in their financing activities; machinery manufacturers plan aggressive programs to stimulate machinery sales. A substantial proportion of these sales will be financed through the manufacturer's own finance companies.

Open-Account Credit From Cooperatives

Farmers spent more money for farm production materials in 1963 than in any other year. Total farm expenditures for feed, seed, fertilizer and lime, repairs and operation of capital items, and miscellaneous items will be about

3 percent higher than the $14.5 billion spent in 1962. Many of these purchases are being made on short-term noninterest bearing, open-account credit.

Some information about how farmers use retail credit was supplied by major farm supply cooperative associations. At the retail level, the aggregate sales volume of the reporting organizations will be well over $1 billion in 1963. They serviced farmers in nearly all sections of the country except in the Mountain and Plains States.

These cooperatives estimate that their sales in 1963 will be about 6 percent above 1962. Changes in sales indicated for major categories of supplies are: feed, up 8 percent; fertilizer, up 12 percent; chemicals other than fertilizer, up 12 percent; seed, up 6 percent; petroleum products, up 3 percent; tires, batteries, and accessories, down 3 percent; and all other items, up 3 percent.

Open-account sales of the retail outlets associated with these cooperatives averaged 80 percent of their total dollar volume in 1963. This compares with 70 percent reported for 1961. In 1964, the proportion of credit business is likely to increase since none reporting expected a decline, and 2 of the cooperatives reported expectations of additional credit business. In addition, they look for a further 6 percent increase in sales volume in 1964. An increase in sales usually is accompanied by use of additional credit.

Little change in aging of accounts was reported. About 55 percent of all accounts were current with an additional 20 percent less than 30 days past due. This is about the same as in 1962. Drought, centered in Maryland and Virginia, was reported responsible for a slight increase in past-due accounts in this area.

N O R T H E A S T

Regional Highlights

	1963	1962	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept.			
Crops	705	696	1.3
Livestock and products	1,552	1,539	.8
Market value of farm real estate, July 1	8,000	7,673	4.3
Farm real estate debt, Jan. 1	990	942	5.1
Farm-mortgage recordings, Jan.-July	116	114	1.8
Non-real-estate loans held by reporting lenders, July 1	568	535	6.2

As in 1962, weather again played an important role in shaping the financial condition and progress of Northeast farmers. Unlike other regions, however, adverse weather is more likely to cut into net income through higher production expenses than to reduce cash income. Feed purchases are a major expense in the dairy economy of the region, and short hay and pasture crops mean higher-than-usual cash outlays to maintain output. This situation existed in 1962, and resulted in more than-the-usual carryover of debts into 1963. Parts of New Jersey and Pennsylvania, as well as southern New England, were hit again by dry weather in 1963. Farmers affected both years made little financial progress.

Apart from short-term financial strains attributable to weather, commercial farmers in the Northeast, as elsewhere, are under continuing pressure to expand their scale of operations to offset rising unit costs and increase net incomes. Better management, credit, and access to more land remain the key tools. Credit facilities have played an important part in facilitating such adjustments, and lending experience continues to be favorable. The major credit need appears to be in intermediate-term loans to finance livestock and machinery purchases. Prospective borrowers can usually show ample security, in part because of rising land values; but repayment would need to be scheduled over a longer period than 1 year. A moderate increase in loan renewals in 1963 is partial evidence of this situation.

Withdrawal of small-scale farmers continues throughout the area, and is made easier than in other regions because of a wider availability of nonfarm jobs. This step is usually a voluntary one, rather than one under pressure of excessive debts; foreclosures are rare. Off-farm work to supplement inadequate farm income is another step open to those who, for various reasons, choose to continue farming but choose not to keep pace with full-time commercial farmers. Such off-farm income is often an important source of the payments made on debts incurred previously as a full-time farmer. The continued favorable repayment experience of lenders is attributable in part to such off-farm income.

Several local situations within the region that differ from the general pattern may be noted. Debt-carryovers have become a normal expectation of Aroostook County, Maine, potato farmers, and they are again likely to be large at the end of 1963. Egg producers who weathered low prices in 1961 partially recovered in 1962, and have continued to show improvement in 1963. Some Connecticut broiler producers have switched to egg production. An effort is presently under way to obtain a reduction of freight rates on feed grains comparable to those which recently improved the competitive advantage of Southeastern broiler growers. Prices received for southern Maryland and Pennsylvania tobacco in 1963 were well below the previous year.

Lenders expect a continued strong demand for credit in 1964 and a further increase in outstanding debt of farmers. Loan funds will continue ample due in part to the growing volume of savings deposits coming from the nonfarm economy. Screening and selection of desirable loans are likely to continue to be the major problems of commercial lenders in the region.

L A K E   S T A T E S

Regional Highlights

	1963	1962	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept.			
Crops	572	612	-6.5
Livestock and products	1,789	1,818	-1.6
Market value of farm real estate, July 1	11,092	10,643	4.2
Farm real estate debt, Jan. 1	1,639	1,528	7.3
Farm-mortgage recordings, Jan.-July	155	126	23.0
Non-real-estate loans held by reporting lenders, July 1	893	773	15.5

Dairy farmers, predominant in the Lake States, had lower incomes in 1963, and this will influence their financial position in 1964. But the value of their land has continued to rise, and their debts have not increased excessively.

Adverse weather conditions beginning in the spring and continuing through the year resulted in poor pastures and short feed crops, particularly in parts of Wisconsin and Minnesota. Milk prices are lower and feed costs higher. Under these circumstances, more dairy farmers than usual will need credit for winter feeding and for planting next spring. Liquid assets have probably declined somewhat. Farmers can be expected to postpone replacing their present machinery and equipment if possible and, when replacements must be made, more farmers than usual will seek used rather than new items. Some farmers--probably fewer than last year--are increasing and improving their herds to bolster farm incomes. Some of the marginal farmers can be expected to leave farming, maintaining the trend to fewer farms--a trend apparently accelerating in many areas of this region because of suburban growth and recreational expansion. More farmers may turn to off-farm work when practicable as an alternative to leaving farming altogether.

In areas where weather conditions were more favorable, dairy farmers have sufficient feed in this year of spotty supplies. Also, farmers of the

region who have feed grains and hay for sale should be able to find profitable outlets since prices are up this year.

Cattle feeding--important in the southern part of the region--continued at a high level this year, but lower prices of fed cattle reduced returns from this enterprise considerably below year-earlier levels. Lower feeder cattle prices this fall suggest a somewhat more favorable outlook for cattle feeding in 1964.

A number of specialty commodities--such as dry edible beans, turkeys, and fruits--are important in some areas of the region. Income prospects from these commodities differ widely this year. Michigan dry edible bean producers, with record yields, in September were receiving prices averaging slightly above those of a year ago. Turkey raisers, concentrated largely in Minnesota and Wisconsin, raised about the same size crop as last year; but September prices received were averaging nearly 10 percent higher than a year ago. Severe cold and spring frosts reduced cherry, peach, grape, and commercial apple production sharply; but prices of these fruits are up this year.

Land prices are continuing to rise, spurred by urban expansion, rural nonfarm housing developments, and demands for recreation and farm enlargement. Loan repayments continue to be satisfactory. Credit supplies are expected to be adequate for justifiable purposes next year.

C O R N B E L T

Regional Highlights

	1963 (Million dollars)	1962 (Million dollars)	Change (Percent)
Cash receipts from farm marketings, Jan.-Sept.			
Crops	1,913	1,768	8.2
Livestock and products	3,761	3,876	-3.0
Market value of farm real estate, July 1	33,093	31,725	4.3
Farm real estate debt, Jan. 1	3,227	3,012	7.1
Farm-mortgage recordings, Jan.-July	454	387	17.3
Non-real-estate loans held by reporting lenders, July 1	2,120	1,816	16.7

The financial situation of cash-crop farmers in the high-producing Corn Belt States by year-end will be improved slightly over a year earlier. Increased yields and higher prices of corn, other feed grains, and soybeans, will bring increased returns to these farmers, although low rainfall early in the season reduced spring hay and pasture yields. In contrast, many livestock farmers in these States will have less income in 1963 than last year because of narrow profit margins or losses from hog-beef fattening. With fed cattle prices above last spring and abundant feed supplies on hand, cattle feeders are expected to continue heavy feeding operations. However, many are reported to have delayed purchases of feeders in the hope that feeder cattle prices would decline further.

Farm lenders and other reporters indicate an increase in production costs and in capital purchases and improvements in the Corn Belt. A strong and continuing tendency has been to "plow back" returns into the farm. Many farmers have increased the size of their farms, improved their buildings, and constructed silos, ponds, and terraces. Moreover, efficient farm operators were applying the latest technologies including the use of more fertilizer, herbicides, and pesticides and improving their haying and silage operations.

All major lenders have increased mortgage lending activity in the Corn Belt. This reflects a strong farmer demand in 1963 and a large supply of funds available for loans. Life insurance companies and banks led the increase in farm lending this year and even savings and loan associations in some areas are reported to be seeking farm loan investments.

Interest rates on both short-term and long-term farm loans in the Corn Belt States have changed little since last fall.

Although farmers in this region are heavy credit users, repayments are good and foreclosures almost nonexistent. However, some lenders reported increased loan renewals to livestock feeders, due to delayed marketings and losses from feeding operations.

The 1964 outlook for Corn Belt farmers appears favorable. The feed-grain program will be continued and individual participants who divert the maximum acreage of feed-grains will receive larger payments than in 1963. Livestock feeders are paying less for feeders and with greater feed supplies on hand from 1963 harvest will continue a strong feeding program for next year. A continued above-average demand for borrowed money is anticipated.

Expenditures for farm enlargement and farm improvement, are expected to continue at a high level next year. The cost-price squeeze will continue to force small marginal operators, unable to expand the farm unit, to supplement their incomes from off-farm earnings.

A P P A L A C H I A N   A N D   S O U T H E A S T

Regional Highlights

	1963	1962	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept.			
Crops	1,790	1,765	1.4
Livestock and products	1,778	1,733	2.6
Market value of farm real estate, July 1	20,513	19,355	6.0
Farm real estate debt, Jan. 1	2,057	1,859	10.7
Farm-mortgage recordings, Jan.-July	401	339	18.3
Non-real-estate loans held by reporting lenders, July 1	1,170	1,048	11.6

Overall, the financial position of farmers in these regions has probably weakened somewhat during the year. Savings and other reserves appear to have

been reduced. Kentucky, Tennessee, and Georgia present the best side of the picture. Virginia and West Virginia were hit hardest.

In most of Virginia and bordering counties in West Virginia and North Carolina, crops were severely affected by drought. The resulting pasture and feed situation could be serious for some dairymen and livestock producers in 1964. In Florida, the citrus crop and trees in the northwestern half of the Citrus Belt were severely damaged by the freeze in December 1962. As a result this year's orange crop for the State may be 30 percent below the 1957-61 average and 15 percent below last year's short crop. Effects will be felt for several years and could bring increased delinquencies, carryovers, and requests for new loans. Many citrus growers in Florida have been badly hurt. On the brighter side, higher prices expected for several years will benefit those who have fruit to pick. Truck crops in the Charleston-Beaufort area of South Carolina also were severely damaged by early freezes and by excessive rainfall at harvesttime.

With cotton production up in these regions, cotton farmers appear to be in a more favorable financial position than tobacco, beef-cattle, and dairy farmers. With little boll-weevil infestation in Tennessee and southeast Alabama, production costs there were down and net incomes were up. Tobacco production and income will be down, particularly from flue-cured in the Carolinas and Virginia; but better crops from burley and other types were expected in Kentucky and Tennessee. Peanut production may be down in the Virginia-Carolina area, but is indicated to be up sharply in Alabama and Georgia. Due to the Cuban situation, prices for sugarcane have been good, and acreage around Lake Okeechobee, in Florida, has expanded substantially.

Production costs continued to edge upward except for cotton growers in areas with low insect infestation. Feed costs, particularly for hay, probably will be higher in drought areas in early 1964 than in 1963. The average size of production loans and the total debts of farmers continued to advance; but debt repayments were normal. Some increase in carryovers and delinquencies is expected by creditors in drought and freeze-damaged areas. The overall upward trend in the level of living has not slowed down.

The larger operators seem to be doing relatively better financially, compared with a year ago than the medium-sized and smaller farmers. The position of those with enough acreage and volume to permit efficient use of machinery and labor has improved; the medium-sized farmers are in about the same position; but the smaller farmers, who have suffered most from the cost-price squeeze, seem worse off than last year. The drift away from farming and the trend toward more nonfarm work continues, particularly by small farmers.

Regional Highlights

	1963	1962	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept.			
Crops	380	378	0.5
Livestock and products	570	541	5.4
Market value of farm real estate, July 1	6,500	6,029	7.8
Farm real estate debt, Jan. 1	739	674	9.6
Farm-mortgage recordings, Jan.-July	185	133	39.1
Non-real-estate loans held by reporting lenders, July 1	512	455	12.5

Financial condition of most Delta area farmers continues at the improved level of last year, although farmers in localities hit by drought and operators of inadequate sized units are faring less well. Crop prospects are good to excellent in most areas.

Income from cash crops may increase slightly over last year. Cotton, the major crop of the region, is expected to remain at about the same level as last year. Income from soybeans is reported to be up substantially, with somewhat smaller increases for rice and sugarcane. Lower incomes for dairy, livestock, and broiler producers will partially offset these increases.

Farm production expenses continued to increase in most areas due to continued expansion in mechanization and more extensive use of fertilizers, herbicides, and insecticides. Larger local increases occurred where feed production was cut by drought in Southern Mississippi, Southeastern Louisiana, and Northwestern Arkansas. Substantial increases in taxes also were reported in some localities.

Debt levels of farmers are higher than in 1962, with a 12-percent increase in non-real-estate debt. Real estate is reported to be increasingly required as security for loans for operating expenses. Repayment experience of lenders has been good, with foreclosures and repossessions virtually nonexistent. Repayments from livestock and dairy operations are expected to be somewhat slow, and more carryover than usual is anticipated.

Country bank deposits in the region increased again this year. Yet bankers report that farmers' reserves have been reduced slightly in most areas, due to rising costs. However, operators of the larger, well-managed units improved their positions considerably.

The level of living of Delta farm families continues to rise, accompanied by increased expenditures for home modernization and improvements, and for education. The trend continues for farmers with small acreages to take off-farm jobs to expand their incomes. There has been an increase in housing loans to part-time farmers and rural residents.

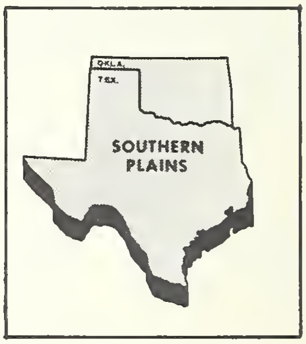
The demand for farm credit in the Delta continues high, especially for short- and intermediate-term loans needed to meet increased operating expenses

and for the replacement of equipment. Lenders will probably have sufficient funds available to meet the needs of well-qualified borrowers, with little or no upward pressure on interest rates. The size of loans is expected to increase, and competition among lenders is not expected to slacken. However, it is reported that operators of inadequate units and renters may encounter difficulty in obtaining sufficient credit in some localities.

SOUTHERN PLAINS

Regional Highlights

	1963	1962	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept.			
Crops	980	930	5.4
Livestock and products	1,095	1,096	-.1
Market value of farm real estate, July 1	19,111	17,518	9.1
Farm real estate debt, Jan. 1	1,400	1,268	10.4
Farm-mortgage recordings, Jan.-July	255	190	34.2
Non-real-estate loans held by reporting lenders, July 1	1,055	928	13.7



Financial conditions of farmers in the Southern Plains--as usual--vary greatly from one area to the next. Overall, however, relatively little change is in prospect with a chance of a slight weakening. Wheat was winter-killed in the Panhandle areas of Texas and Oklahoma, and drought hurt the cotton crop in southwestern Oklahoma. Citrus production in the lower Rio Grande Valley of Texas continues to suffer from last year's and previous freezes, and production is not likely to return to normal until 1966 or later. Cotton and grain sorghum crops were short in the lower valley and Coastal Bend areas. The rice crop along the Gulf Coast of Texas did well, although Hurricane Cindy did some damage late in the harvest. Feed grain production is expected to be good in West Texas, and the cotton crop in Northeast Texas was reported good. Costs appear to be higher in all parts of the area.

Increased mechanization and other capital needs have resulted in continued high demand for credit, and prospects are that this demand will continue. Supplies of funds will probably be adequate, but marginal borrowers may find it a little more difficult to get financing. One lender, for example, reported that "farm and ranch real estate debts, as well as operating debts, continue to go higher and the demand for both types of loans is unusually strong. The payment record on real estate loans continues to be excellent. Lender positions and policies are expected to remain substantially the same with perhaps a closer look at the applicant who is getting overloaded with debts."

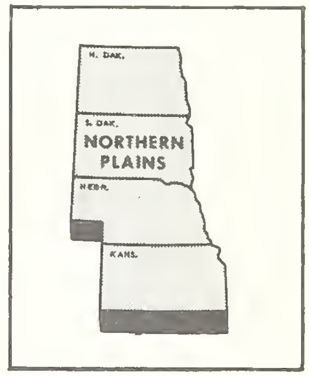
Delinquencies are generally not a problem. Repayments are improving in the Upper Rio Grande Valley, in Central Texas, and in the rice-producing section of the Gulf Coast; they are reported likely to be poorer in areas such as the Southern Rio Grande Valley, which has experienced several bad years in a row, and the Panhandle region. Interest rates will probably be unchanged though they may edge upward.

On the average, farmers' savings and reserves appear to be about the same as last year in most parts of the region, though they are lower in some of

the areas affected by bad weather and among smaller farmers generally. Buildings and equipment are generally reported as being well maintained. Off-farm work, where available, continues to be important to the smaller farmer; it was reported responsible for improved conditions in northeastern Oklahoma during the past year.

Future planning is reported to be more difficult this year because of uncertainty over wheat prices.

N O R T H E R N   P L A I N S



Regional Highlights

	1963	1962	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept.			
Crops	1,186	1,135	4.5
Livestock and products	1,588	1,624	-2.2
Market value of farm real estate, July 1	15,479	14,719	5.2
Farm real estate debt, Jan. 1	1,300	1,181	10.1
Farm-mortgage recordings, Jan.-July	155	139	11.5
Non-real-estate loans held by reporting lenders, July 1	1,365	1,133	20.5

Wheat production in the Northern Plains is reported to be about 11 percent below last year. The wheat crop was poor in southwestern Kansas. The North Dakota crop was better than average though not up to last year's near-record levels; the southern part of the State was especially troubled by drought and hailstorms.

Corn production appears likely to be substantially higher than last year's above-average crop in South Dakota, but slightly below the last 5-years' average in Nebraska.

Pasture conditions were above average--though not up to last year's levels--in the Dakotas, but were average or below average in Nebraska and Kansas. The cattle and sheep areas of Western South Dakota and the sandhills of Nebraska have had another favorable year. Cattle feeders have had a poor year because of low fed cattle prices relative to feeder cattle prices and higher feed costs.

Farm operating expenses have increased moderately throughout the region.

These factors suggest that the financial situation of farmers, on the average, will not change greatly from 1962, but that there will be wide variations.

Farm and ranch consolidations, increased mechanization, and larger expenditures for fertilizer, insecticides, etc., have kept demand for credit high throughout the area. Demand for credit from farm supply cooperatives in South Dakota and Nebraska is reported to be at unprecedented levels. The supply of funds appears adequate in most areas to finance most farmers. One

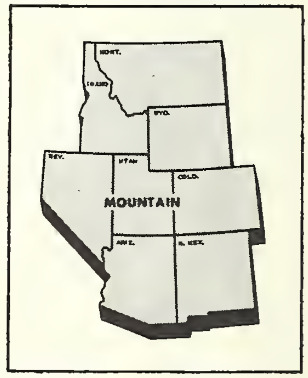
lender notes, however, that "with many merchants rather heavily loaded with credit this year, they may be more concerned with making cash sales in 1964. This may move the farm operator to making arrangements with his banker or a PCA earlier in the season." Interest rates are expected to be the same to slightly higher. Delinquencies have generally been few on well-managed farms of adequate-size.

Two good years have aided the overall financial status of farmers in Northern North Dakota and in Western South Dakota. Lower wheat production this year will hurt the financial status of those in Kansas but the harm is cushioned by several years of good crops prior to 1963. Most reports indicated that farmers on adequate size units were maintaining their reserves at about last year's levels. Farmers with an inadequate resource base continue to have difficulties, unless they can find off-farm work.

M O U N T A I N

Regional Highlights

	1963	1962	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept.			
Crops	648	617	5.0
Livestock and products	967	980	-1.3
Market value of farm real estate, July 1	12,922	12,135	6.5
Farm real estate debt, Jan. 1	1,416	1,300	8.9
Farm-mortgage recordings, Jan.-July	193	182	6.0
Non-real-estate loans held by reporting lenders, July 1	1,084	947	14.5



Aided by good weather, ranchers and farmers in the Mountain region generally maintained or improved their financial position in 1963 compared with 1962. Throughout most of these 8 States, crop output ranged from good to excellent. Calves and lambs were turned off the ranges at good weights and prices. As usual, unfavorable growing conditions affected some areas but they were relatively small and widely scattered. Worst hit were Southern Nevada, North-Central Montana, and much of Colorado.

Cash receipts from the sale of crops, livestock, and livestock products during the first 9 months of 1963 were 1 percent above the like period of 1962. At the same time, however, production costs continued to rise.

Farmers' credit needs continued strong. Most farmers and ranchers have limited cash reserves with which to finance their operations and depend heavily on credit to meet current production expenses. Most producers will meet their obligations on time. Debt carryovers from 1962 will be reduced this year; the number of foreclosures and delinquencies is quite low. Some farmers in areas where unfavorable weather hurt production are experiencing difficulty in repaying their loans.

Operators of small units with limited production continued to seek off-farm employment in order to remain in farming. Failing that, many of these smaller operators curtailed expenses where possible or left farming. The trend

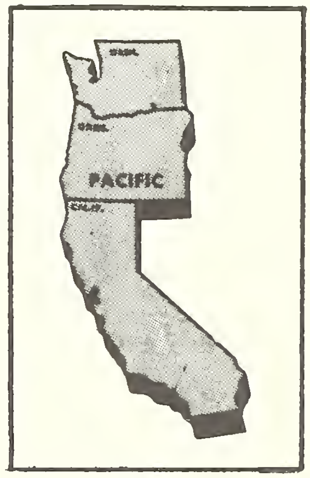
of these families leaving the farm continued in 1963 but it is reported at a slower rate than in previous years.

Credit demand will continue to increase in 1964. Ranchers and farmers will seek additional financing to enlarge their farms through consolidation of units and in intensification of operations.

Financial agencies face a challenge in the wheat areas. Reports indicate that in the absence of a wheat program for 1964, some lenders tended to restrict the extension of operating credit at the time that some wheat producers wanted to expand their planted acreage. If the price of wheat remains fairly stable or drops only slightly, such credit restrictions may be eased.

Whether or not the volume of credit supplied is adequate to meet the growing demand will be tested in 1964. Short-term interest rates were working upward in some parts of this region but little change is expected in interest rates on real estate loans.

P A C I F I C



Regional Highlights

	1963	1962	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept.			
Crops	1,686	1,566	7.7
Livestock and products	1,264	1,254	-.8
Market value of farm real estate, July 1	21,372	19,719	8.4
Farm real estate debt, Jan. 1	2,392	2,127	12.5
Farm-mortgage recordings, Jan.-July	307	264	16.3
Non-real-estate loans held by reporting lenders, July 1	1,076	999	7.7

This was a good farming year in the Pacific States. Cash receipts from farm marketings the first 9 months were up 5 percent from a year earlier. All 3 States in the region shared in the advance. Even though increased production expenses offset part of the gain, total net returns should be at least equal to those of 1962 and probably will be slightly higher. Soft spots did appear during the year--some quite serious. Cattle feeders bought high and sold low. Low prices and high costs hurt dairy and poultry producers. Among the specialty crop growers in this most diversified farming section of the country, wide variations in net returns were reported. On balance, the financial condition of farmers shows some improvement in 1963.

Farmers relied more on the use of credit in 1963 than in 1962. Expanded credit use resulted from a continuing strong demand for credit coupled with more available funds as bank time deposits increased rapidly late in 1962 and early in 1963. The condition of the outstanding farm credit appears to be good. The number of delinquencies is lower, extensions are fewer, and involuntary foreclosures are rare.

Financial assets of farmers were reported down from 1962. This was attributed partly to heavier investment outlays and to increased spending for

family living and maintenance of buildings and equipment. However, net worth increased through farm improvements, upgraded equipment, and increased market value of real estate. Wheat growers, faced with the possibility of reduced prices for next year's crop, were retrenching to some extent to cope with the uncertainties ahead.

In 1964, farm debts probably will increase further. Outlays for machinery, real estate, other capital investments, and production inputs are likely to be higher.

The migration of farmers out of farming is expected to continue during the coming year in this region. This movement is closely associated with the long-time trend toward urbanization around the larger cities in the area and the increase in size of farms through the absorption of small, uneconomic units by larger, commercial operators.

Funds will be ample to meet the credit demands of commercial farmers. Major long-term lenders may continue to be competitive in their search for business. Although interest rates may be unchanged to slightly higher in 1964, it was reported that some lenders may further liberalize their terms in order to attract what they consider to be desirable borrowers.

ALASKA, HAWAII, AND PUERTO RICO

Alaska- Farm production in Alaska continues to be relatively costly and risky, and markets are uncertain. Few new farms are being established and more marginal operators are leaving farming. Delinquencies and carryovers are about the same as last year but foreclosures and forced sales are reported to have increased somewhat. Credit is adequate for sound operations. Because of lower milk prices and higher costs, especially to meet health standards, the financial condition of dairymen is somewhat weaker than last year. The condition of potato, grain, and vegetable producers is about the same. Nonfarm employment, dependent largely on military spending, has been stable.

Hawaii - Reports from Hawaii, mainly for farms other than the large corporate operations, indicate little change from last year in living levels of farm families or in their financial savings. Buildings and equipment apparently are well maintained. The credit supply is adequate, but many of the smaller farmers are said to be questionable credit risks. In general, the financial situation of farmers is about the same as a year ago but nonfarm employment opportunities have leveled off.

Puerto Rico - Although recent economic growth in the Island has been mainly in urban areas, rural people have made substantial gains in their purchasing power, housing, and living levels. Farmers, through liberal amounts and terms of credit, have been steadily modernizing their production operations. Improved income during the last several years has resulted in fewer delinquencies and foreclosures. Puerto Rican farmers, as a whole, are reported in a moderately stronger financial position than a year ago. Sugarcane growers are in a much stronger position because of the substantial rise in the price of sugar and molasses. Good production has brought a moderate improvement for both coffee and tobacco growers. The financial situation of dairy farmers is reported about the same as last year.

FINANCIAL SURVEYS IN 2 SELECTED AREAS

The preceding sections of this report are mainly concerned with national and regional developments in the financial position of U. S. agriculture. The remainder of the report focuses on 2 important types of farms that have experienced less favorable income in 1963 than has agriculture as a whole. Determining the seriousness of this income situation--in terms of its effect on debts, savings, farm operations, capital expenditures, and living levels--was one of the main objectives of this study. Another purpose was to find out the influence of 1963 income conditions on the operating and investment plans of these farmers for 1964.

Hog-beef fattening farms in the Corn Belt and grade A dairy farms in eastern Wisconsin were chosen for special study. 2/ The prices of hogs, cattle, and milk in these areas have been significantly lower in 1963 than in 1962. In parts of southern Wisconsin drought also was a factor in reducing net incomes of farmers.

Information was obtained by personal interview during September 1963 from a sample of operators of both types of farms. Seventy-six farmers in the hog-beef fattening area and 87 producers of grade A milk in eastern Wisconsin provided data. Supplemental reports on the credit conditions of these types of farms were obtained from bankers, representatives of the Farmers Home Administration, production credit associations, land bank associations, and other local creditors.

CORN BELT HOG-BEEF FATTENING FARMS

There are several different types of farms in the hog-beef fattening area of the Corn Belt. Hog-beef fattening farms probably are the most common type, but even they vary in size and method of operation. Some operators fatten several hundred cattle a year, purchasing much of their feed, while others grow their own feed for fattening. Some farmers also keep beef cows and fatten only their offspring.

Farm Organization

To present a picture of the hog-beef fattening farm of the size and method of operation represented in the Costs and Returns series, farms in the

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2/ W. H. Heneberry had major responsibility for preparing the report on hog-beef fattening farms and M. E. Wirth, for the report on grade A dairy farms. Important contributions to the surveys were also made by R. A. Christiansen, D. E. Cummins, V. E. Eitel, E. T. Hamlin, N. D. Kimball, and P. E. Rosenberry. Estimates of costs and returns on these farms are made annually by the Farm Prod. Econ. Div., and the financial data obtained in the survey are believed to be applicable to farms of similar types as reported in the farm costs and returns publications. See, for example, Farm Costs and Returns, Commercial Farms, by Type, Size and Location, U. S. Dept. Agr., Agr. Inform. Bul. 230. Washington, D. C., August 1963.

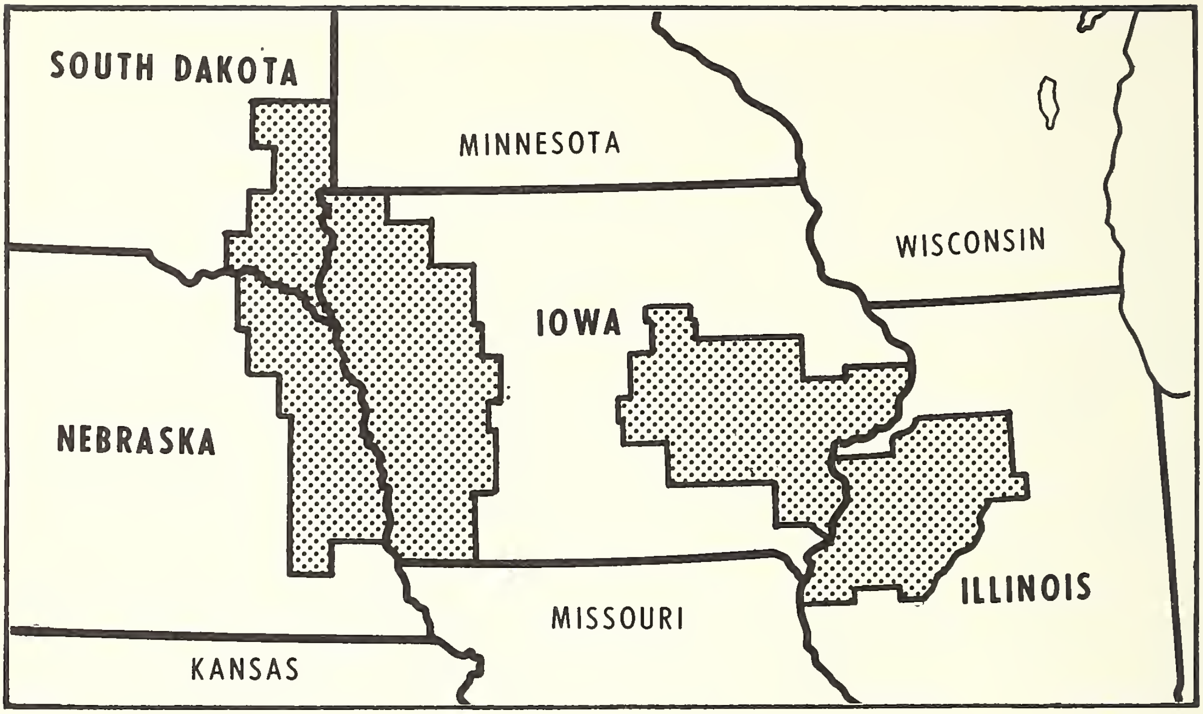

Figure 6

The commercial, hog-beef fattening type-of-farming area includes 75 counties in 4 States--South Dakota, Nebraska, Iowa, and Illinois.

survey area (fig. 6) were limited to those having the following characteristics: 160-340 acres of land; 100-300 hogs raised in 1963; 30-150 feeder cattle purchased and fattened; and fewer than 10 milk cows. In addition, those farm operators over 65 years of age, and those using more than $750 of hired labor or working off the farm more than 100 days were excluded from the survey.

Some characteristics of typical farms are shown in table 2. In general, the slightly larger farm acreage and greater numbers of hogs and cattle on hand in 1963 represent a continuation of recent trends toward bigger farms and more intensive livestock production. The 4 percent increase in total farm capital from 1962 to 1963 includes a higher value per acre on a larger number of acres, as well as increases of 6 and 8 percent for machinery and livestock respectively.

The survey also revealed that 47 percent of the land in farms was owned by the operator and the remaining 53 percent was rented. About 46 percent of the operators rented all of the land they farmed, while 31 percent were full owners. Part-owners as a group owned two-thirds of the land they operated.

Changes in Net Income, 1962-1963

Farmers in the survey area were asked to estimate their income from farming and other sources for 1963 and 1962. More than three-fourths of those replying expected that their 1963 net income from farming would be less than it

Table 2.--Organization of hog-beef fattening farms, Corn Belt, 1962-1963

	Unit	1962	1963
Acres in farms	No.	227	231
Cropland harvested	Acres	147	153
Corn	Acres	86	94
Oats	Acres	31	29
Hay	Acres	30	30
Cattle, January 1	No.	86	96
Hogs, January 1	No.	116	125
Pigs raised	No.	196	205
Cattle sold	Cwt.	819	910
Total farm capital, January 1	Dol.	94,570	98,314
Land and buildings	Dol.	64,240	66,066
Machinery and equipment	Dol.	8,000	8,500
Livestock	Dol.	15,230	16,448
Crops	Dol.	7,100	7,300

Sources: Data for 1962 from Rosenberry, Paul E., Costs and Returns, Commercial Corn Belt Farms, 1962, FCR-9, Economic Research Service, U. S. Department of Agriculture; and preliminary estimates for 1963 from Mr. Rosenberry's unpublished data.

was a year earlier. This is not surprising because the spread between the cost of feeder cattle and the price of slaughter steers was less favorable for cattle feeders in 1963. High returns in 1962 had encouraged farmers and feedlot operators to bid up the price of feeders purchased for marketing during 1963. Prices of slaughter cattle subsequently declined sharply with a consequent reduction in net returns. Farmers expecting lower income in 1963 usually blamed the decline in cattle and hog prices; a few operators in western Iowa and eastern Nebraska also mentioned drought as a reason for poorer crops and lower income. In eastern Iowa and western Illinois, crops were excellent and may help to offset lower income from livestock.

Only about 1 farmer in 6 expected higher income in 1963, due to larger farm acreage, and increased volume or better timing of livestock sales. When expected reductions were balanced with expected gains in income on all farms, the average per farm will be substantially lower in 1963 than in 1962. Some farmers will have net incomes less than half those of 1962.

Nonfarm income varied widely in source and amount among farms in the survey. It included, for example, wives' salaries from teaching school, nursing, and secretarial work as well as operators' income from trucking, military reserve duty, and work in industrial plants. Nonfarm work appeared to be more

common in the eastern area than in the western part. Slightly less than 10 percent of all the income reported by the farmers surveyed came from nonfarm sources. 3/ However, only one-fourth of the families reported any such income, so it was a much more important addition to farm earnings of families that reported nonfarm income. Receipts from nonfarm sources were lower this year on about half of the farms reporting. Income from all sources was expected to be about 20 percent under the 1962 level.

Assets and Debts

Some insights into the amounts and composition of farmers' assets and debts were gained from the survey. Land might be expected to be the most important resource, in terms of dollar value, on typical Corn Belt farms; but, because this survey included only the assets of the operator, values for land were not obtained for rented farms. The average value of land owned by full owners was about $66,000 per farm, and for part-owners, $42,000.

Of the farmers who gave specific figures about their financial assets, all maintained checking accounts, 30 percent had savings accounts, 25 percent owned Government bonds, and 14 percent owned corporate stocks and bonds. At the beginning of 1963, the average holdings were: checking account, $1,700; savings account, $3,450; Government bonds, $1,975; and corporate securities, $1,115. With few exceptions, respondents expected lower balances in both checking and savings accounts at the end of the year. In general, tenant operators' savings were well below the levels of those of full owners and part owners.

About half of the full owners and part owners had debts secured by farm real estate. As of January 1, 1963, the amount of this debt averaged $13,600 and ranged from $3,000 to $30,000. During the year, these farmers expected to reduce such indebtedness by an average of $1,200 each to $12,400 by December 31, 1963. However, the average debt secured by real estate mortgage as of December 31 will be $700 higher--$14,300--because 1 respondent with no debt at the beginning of the year credit-financed a farm he bought during the year.

Non-real-estate debt was reported by two-thirds of the farmers. Banks, PCA's, and FHA carried practically all of this debt, which averaged around $9,200 on farms reporting. Much of this debt was for feeder cattle purchases. Like real estate debt, it was expected to be lower by the end of the year. The average reduction will be about $400 per farm. Practically all farmers were paying their bills on schedule at the time of the survey and expected to continue to meet scheduled payments for the rest of the year. This situation was confirmed by most of the lenders interviewed. They reported delinquencies and loan carryovers at low levels.

Spending and Use of Credit

Farmers were asked whether they had made any major purchases of land, livestock, or machinery, or for major improvements on their houses or service

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3/ Operators working off the farm more than 100 days during the year were excluded from the sample. This would tend to reduce the average amount of nonfarm income.

buildings this year. (A "major" purchase or improvement was defined as one costing $500 or more.) Feeder cattle represented the most important type of expenditure (table 3). Practically all of the farmers purchased at least $3,000 worth of feeders and, in a few cases, the amount was above $15,000. The average expenditure for feeders was about $8,600. Seven out of 10 farmers used credit in buying feeders, most of them borrowing the full amount of the purchase.

Purchases of tractors, trucks, machinery, and equipment were major expenditures on about one-third of the farms. Of this group, one-third used credit to finance their purchases and the average indebtedness was 80 percent of the unpaid balance. One of every ten farmers bought an automobile during the year. About half of the car buyers paid cash at the time of purchase and those who used credit borrowed about 80 percent of the balance due. Fewer farmers bought tractors and trucks or cars than bought other machinery.

Farmers expected to use credit to finance most of their feeder cattle purchases for 1964 operations (table 4). About 15 percent of them did not expect to buy any feeders next year, compared with only 8 percent who bought none this year. There was no indication that this situation occurred because of their unfavorable experience in the 1962-63 feeding year. Of those expecting to buy, 5 out of 6 intended to use credit for purchase. The expected cost averaged $9,500, substantially higher than this year's purchases. This increase can be explained by the fact that about a third of the farmers expect to increase their spending for feeders by 71 percent in 1964 compared with 1963. On the other hand, about 30 percent expect to spend an average of only 15 percent less.

Two farmers expected to buy land in 1964 and both planned to use credit. Other important areas of planned expenditure were tractors and other machinery, building improvements, and automobiles. Some operators indicated they would cut back expenditures next year to compensate for reduced income, but most of them gave no indication that they would do so.

Farmers were asked whether they would buy nearby farmland if it were available at current prices. About one-fourth of them said they would, reflecting the presence of a strong demand factor in the land market. All except one operator indicating an intention to buy land said they would use credit for financing. Two said they would buy if the purchase could be made by land contract. It is significant to note that most of the farmers who said they would buy land appeared to be able to make an investment of this type. A majority of these individuals were full or part owners with considerable equity in the land they owned. Others, mainly tenants, owned their feeder cattle outright and could have used this equity as a source of funds for a substantial downpayment. The remaining few presumably would need some form of low-equity financing.

On the other hand, about three-fourths of the farmers said they would not buy land for a variety of reasons. Most of the reasons could be grouped into three categories which appeared to be equally important: (1) Lack of savings or financing (2) feeling that land was a poor investment at present prices and (3) indebtedness on recently-purchased land. Other reasons for lack of interest in buying land included the operators' opinions that their farms were large enough, and that they were growing too old to make this type of investment.

Table 3.--Major expenditures and use of credit, 1963, hog-beef fattening farms, Corn Belt

Item	Percent of farmers making expenditure	Average amount per farmer making expenditure	Percent of farmers using credit	Percent of expenditure borrowed by farmers using credit
	Percent	Dollars	Percent	Percent
Feeder cattle	92	8,600	73	81
Feeder pigs	11	1,800	50	75
Other livestock	9	1,500	29	100
Land purchase	1	35,000	100	100
Land improvement	1	700	0	0
House	9	1,800	14	100
Other buildings	7	700	20	67
Autos	9	2,800	43	80
Tractors and trucks	5	2,000	100	76
Other machinery and equipment	26	1,300	20	87

Table 4.--Major purchases and improvements planned for 1964, hog-beef fattening farms, Corn Belt

Item	Percent of farmers planning purchases or improvements	Average cost per farm making purchase or improvement	Percent of buyers planning use of credit for purchase or improvement
	Percent	Dollars	Percent
Feeder cattle	85	9,500	86
Feeder pigs	9	1,500	100
Other livestock	8	1,700	33
Land purchase	3	39,000	100
Land improvement	3	1,000	0
House	5	800	0
Other buildings	9	1,700	57
Auto	8	2,200	17
Tractors and trucks	9	3,400	71
Other machinery	18	1,000	29

General Financial Progress

Despite generally lower farm income, 40 percent of the farmers expected to be in the same condition from an assets-debt standpoint, by the end of 1963 as they were at the beginning of the year. About 24 percent expected to be better off, generally attributing their improved condition to their ability to reduce their indebtedness. Those who expected to be worse off blamed lower prices and in some cases poorer crops. A higher proportion of the latter group resided in the western part of the area than in the eastern portion.

A significant proportion (about one-fourth) of the farmers interviewed had large and unusual expenses not connected with the farm business during the last 12 months. Most of these were medical and hospital expenses, and a few were for education of children. The general living expense level was higher this year than last year for slightly more than half of the families in the survey. Higher prices for food, clothing, and other items of living expense were mentioned frequently, especially by those with growing families. There was no indication that the lower income of 1963 forced any curtailment of living expenses.

GRADE A DAIRY FARMS IN EASTERN WISCONSIN

The General Situation

The typical commercial grade A dairy farm in eastern Wisconsin is a 30- to 40-cow operation with about 85 percent of the labor provided by the operator and his family. An average of about 30 cows are being milked on these farms in 1963, with production per cow averaging around 10,200 pounds annually. Average farm size is about 175 acres with 140 acres of cropland. Total capital investment (including land rented from landlords) was about $67,000 per farm on January 1, 1963, as follows:

	Capital investment per farm
	Dollars
Land and buildings	38,103
Machinery and equipment	12,403
Livestock	11,876
Crop inventory	4,906
Total	67,288

Crop production in 1963 was spotty owing to drought, but generally below average. Southeastern counties were hit hardest. According to the State Crop Reporting Service, pastures in some of these localities during July and August were only 40 to 50 percent of normal. Hay production for the State as a whole was estimated at 19 percent below last year's record output, but only 2 to 3 percent below the 5-year average. Corn for grain came back well after an early dryness, with production indicated at 2 percent below the 1962 level.

Corn yields for silage varied. A few farmers reported yields comparable with last year, but in many areas the crop was short-stalked. On a number of these farms, and on farms with short hay supplies, some corn originally intended for grain was diverted to silage. Feed prices are higher this year than last.

Many eastern Wisconsin grade A dairy farmers culled their herds closely this year because of limited feed supplies and higher feed prices. A few of these farmers purchased some, or all of their replacements as a "stop-gap" measure to maintain herd production levels. Cash receipts are expected to be down as a slight increase in total milk production per farm estimated for 1963 will be more than offset by a predicted drop of about 5 percent from 1962 in the average milk price received. Larger purchases, particularly of feed, and higher costs generally, coupled with lower cash receipts are expected to result in a substantial drop in 1963 net farm income from last year's average of about $6,200 per farm.

Survey Farms

Eighty-seven farms in the southern part of the eastern Wisconsin Grade A Dairy Area were included in the survey this fall (fig. 7). The survey was limited to grade A dairy farms on which 15 to 75 cows were milked on the average throughout the year. The survey farms averaged somewhat larger, and had higher proportions of crop land, than grade A farms in the eastern Wisconsin dairy area as a whole. Crop and pasture production on the survey farms was probably reduced more than on farms farther north. But, with larger farms and probably larger reserves, operators of these farms may be in a position to withstand the unfavorable crop and pasture conditions a little better than farmers in the entire eastern Wisconsin grade A dairy area.

Figure 7

The eastern Wisconsin grade A dairy type-of-farming area includes 22 counties.

Incomes

In a situation of generally lower farm incomes, about one-third of the farmers reported higher incomes in 1963 than in 1962; one-seventh reported no change, and one-half indicated income declines. In 1963, as in 1962--1 in 6 of the farmers in the survey reported income from off-farm sources, and their off-farm income averaged about $2,500 per year.

Major Expenditures and the Use of Credit

Three-fourths of the survey farmers were making at least one major capital expenditure--$500 or more--during 1963. In 1964 about 60 percent plan such expenditures. Farmer expectations may or may not be predictive of what they will actually do in 1964. Nevertheless, many farmers expressed a cautious attitude about spending for large capital investments next year.

Roughly half of these actual or prospective purchasers--45 percent in 1963 and 58 percent in 1964--were using or planned to use credit. These figures highlight the present-day importance of credit in providing capital to agriculture.

Proportions of survey farmers making each major expenditure and the use of credit by these purchasers are shown in table 5.

Farm Machinery and Motor Vehicles

Farm machinery dealers in the survey area generally reported a slow year. Fifty-nine percent of the farmers interviewed reported a major expenditure for one or more farm machines, automobiles, or other motor vehicles in 1963. However, few bought heavily. Some purchased major items of more than one class.

Table 5.--Percentages of farmers making expenditures of $500 or more, and percentages using credit, by purpose, 1963 and intentions for 1964, southeastern Wisconsin, grade A dairy farmers

Major expenditures items	Expenditures		Credit use 1/	
	1963	1964	1963	1964
	Percent	Percent	Percent	Percent
Farm machinery and motor vehicles				
Machinery, other than tractors, trucks, and automobiles	44	21	47	39
Automobiles	14	11	42	60
Tractors and trucks	15	14	46	67
Farmland and buildings				
Land purchases	3	2	100	50
Buildings other than house	24	20	24	59
House	11	10	30	44
Land improvements	3	3	0	0
Livestock				
Other than feeders	11	8	30	57
Feeder pigs	5	7	25	33
Feeder cattle	1	1	0	100

1/ Percentage of those making expenditures who used or plan to use credit.

Forty-four percent made major expenditures for machinery, 14 percent for automobiles, and 15 percent for tractors and trucks. The expenditures of all farmers buying in 1963 averaged $2,450. Only 37 percent said they intended to purchase in 1964.

About half of the purchasers are using or plan to use credit.

Land Purchases

Three of the farmers indicated they were buying land this year. Their expenditures averaged $17,200. All of these buyers were using credit, borrowing about 90 percent of the purchase price. Two farmers interviewed said they expected to buy land during 1964.

Farmers were asked if they would buy nearby farmland at current market prices if it were offered for sale in the next 6 months. Seventy-five percent said they would not; 25 percent said they would. "The price of land is too high compared with the return it will bring," was the comment most frequently heard from those who said they would not buy. The need for more cropland was

often mentioned by those who would buy. Ninety-one percent of this group said they would use credit to help finance the purchase. Those indicating a willingness to buy farmland were predominantly the younger farmers. Farmers with dairy herds ranging from 30 to 49 cows were much more likely to be interested in purchasing land than were farmers with either larger or smaller herds.

Real Estate Improvements

Thirty-eight percent of the farmers reported major expenditures ($500 or more) this year for improvements to their service buildings, houses, and land. These expenditures averaged $2,400. Only one-fourth of those making improvements reported use of credit. Regarding their 1964 plans, 31 percent reported that they planned major real estate improvements and about half of this group said that credit would be used to finance the improvements.

Dairy

Fourteen percent of the farmers interviewed indicated livestock purchases exceeding $500 for 1963. One-third used credit financing. About 16 percent said they expected to buy livestock next year, with about half planning to use credit.

Farmers were asked if they expected to expand their dairy operations over the next 2 years. Although they indicated that they could on the average handle 4 to 5 more cows with their present facilities, 84 percent said they had no plans for even this moderate amount of expansion. Some commented that this was not the time for expansion particularly if it would require going into debt. The lack of qualified workers was also mentioned as a hindrance to expansion.

Debt

Lenders report that repayments were generally good in 1963. Delinquencies remain at low levels and foreclosures were almost nonexistent. Some lenders expect borrowing for feed purchases to increase in the winter and early spring as feed supplies run short on farms where dry weather materially reduced feed production. Probably more farmers than usual will need to use credit to finance 1964 spring plantings.

About 5 out of 6 of the survey farmers owed money during 1963. Both real estate and non-real-estate debt were expected to decline during the year, with the total debt down 5 percent.

About three-fifths of the farmers owed real estate debts averaging $19,800 at the beginning of 1963; by the end of 1963 these debts were expected to decline to $19,200, an average decline of about 3 percent. Of these farmers, 76 percent reduced their debts during 1963; only 11 percent increased their real estate debt, while 13 percent showed no change. This indicates that most farmers were not expanding their operations, and that farmers were generally able to reduce their debts despite lower farm income levels this year.

As with real estate indebtedness, three-fifths of the farmers in the survey had non-real-estate debts in 1963. Debts of these farmers averaged about $4,800 at the beginning of 1963, and were expected to decline to $4,300 by yearend, a drop of 10 percent. Probably smaller machinery and equipment expenditures accounted for most of this decline.

Savings

Farmers reported savings and reserves averaging about $3,200 on January 1, 1963. This included checking accounts, savings deposits, Government bonds, and corporate stocks and bonds. Little change is expected in the level of these reserves by the end of 1963.

Financial Condition

The financial progress that farmers expected to make during 1963 varied considerably. About two-fifths expected to end the year in a better financial position than at the beginning; another two-fifths felt their net worth would be pretty much unchanged from the beginning of the year; while the remaining fifth believed that they would lose ground. The fact that they were managing to make some reduction in their debts was frequently mentioned as the reason by those who felt they would be better off. Dry weather resulting in poor pasture and hay, and the expected increase in feed costs were reasons often cited by those who felt they would be in worse financial shape by the end of 1963 than a year earlier.

Family Living

These farmers' living expenditures had generally increased during the year. Thirty-seven percent of the survey farmers reported higher expenditures and 61 percent reported no change. Only 2 percent indicated a decline.

In summary the major impact of the lower farm incomes was on farm capital expenditures and on debts. Capital expenditures apparently were reduced in 1963, and were planned to be curtailed further in 1964. Both short-term and long-term debts were being reduced. Liquid financial reserves were being maintained and family living expenditures were being allowed to rise further.

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